

Consolidated Financial Report for the First Three Quarters Ended December 31, 2018

February 4, 2019

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(Amounts rounded to the nearest million yen)

1. Consolidated Financial Results for the First Three Quarters Ended December 31, 2018

(From April 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results

(% indicates the rate of increase / decrease to the same period of previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
April – December 2018	540,468	6.6%	30,043	(20.1)%	33,430	(14.4)%	22,845	(14.3)%
April – December 2017	507,056	15.3%	37,613	65.7%	39,069	72.8%	26,670	77.0%

(Note) Comprehensive Income: From April 1, 2018 to December 31, 2018: 21,917 Million Yen (40.7)%
 From April 1, 2017 to December 31, 2017: 36,967 Million Yen 147.9%

	Net income per share (Yen)	Diluted net income per share (Yen)
April – December 2018	218.09	217.39
April – December 2017	253.94	253.08

(Note) The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. Net income per share and diluted net income per share have been calculated assuming that such consolidation was carried out at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio (%)
December 31, 2018	743,180	344,845	43.5
March 31, 2018	742,445	336,861	42.5

(Reference) Shareholders' equity: As of December 31, 2018: 323,162 Million Yen

As of March 31, 2018: 315,352 Million Yen

[Shareholders' equity = Net assets – Share acquisition rights – Non-controlling interests]

2. Cash Dividends

	Cash dividends per share (Yen)				
	First quarter	Second quarter	Third quarter	Year end	Annual
April 2017 – March 2018	-	0.00	-	75.00	75.00
April 2018 – March 2019	-	0.00	-		
April 2018 – March 2019 (Forecast)				75.00	75.00

(Note) Revision of the latest forecast of cash dividends: No

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2019

(From April 1, 2018 to March 31, 2019)

(% indicates the rate of increase / decrease to the same period of previous year)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share(Yen)
April 2018 – March 2019	740,000 6.4%	44,000 (12.4)%	45,500 (10.3)%	30,500 (3.7)%	292.27

(Note) Revision of the latest forecast of consolidated financial results: No

(Notes)

(1) Changes in significant subsidiaries during the first three quarters ended December 31, 2018: No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first three quarters ended December 31, 2018.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For more details, please refer to “5. Consolidated Financial Statements (4) Notes to Quarterly Consolidated Financial Statements (Application of the special accounting methods for preparing the quarterly consolidated financial statements)”.

(3) Changes in accounting policies applied, changes in accounting estimates and retrospective restatement

Changes in accounting policies applied due to revisions of accounting standards: No

Changes in accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(4) Number of Shares Outstanding (common stock)

	December 31, 2018	March 31, 2018
Numbers of shares outstanding at period end	106,200,107	106,200,107
Numbers of shares of treasury stock at period end	3,163,420	1,182,884

	April – December 2018	April – December 2017
Weighted-average number of shares outstanding during period	104,748,941	105,026,676

(Note) The Company has consolidated its shares in the proportion of 10 common shares to one common share, effective as of October 1, 2017. Weighted-average number of shares outstanding during period have been calculated assuming that such consolidation was carried out at the beginning of the previous consolidated fiscal year.

(Information regarding quarterly review procedures)

The financial information contained in this report is not subject to quarterly review procedures by independent auditors.

(Cautionary statement on forward-looking statements)

The performance forecast and other forward-looking statements contained in this material have been prepared on the basis of information available at this point and certain assumptions which are judged to be rational. It may be substantially different from the actual performance because of various factors such as economic conditions in key markets, supply and demand of products, the prices of raw material and fuel, interest rates, and exchange rates.

4. Qualitative Information on Operating Results

(1) Overview of Operating Results

During the current term, net sales of the Company Group increased, thanks to price normalization resulted from rises in raw material prices of the products represented by chemical products, as well as sales increases in construction materials backed by the continued strong demand in the Japanese market. On the other hand, operating profit of the Company Group was affected by a price rise of coal, the periodic inspection of the ammonia product factory and a price decline in the synthetic rubber market. Non-operating income increased, mainly because of business integration of equity-method affiliates.

As a result, the Company Group reports its consolidated results during the current term as follows:

(Billions of yen)				
Item	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
April – December 2018 ①	540.4	30.0	33.4	22.8
April – December 2017 ②	507.0	37.6	39.0	26.6
Difference ① - ②	33.4	(7.5)	(5.6)	(3.8)
Percentage change	6.6%	(20.1)%	(14.4)%	(14.3)%

(2) Overview by Segment

Net sales (Billions of yen)				
Segment	April – December 2018 ①	April – December 2017 ②	Difference ① – ②	Percentage change
Chemicals	234.7	225.3	9.3	4.2%
Pharmaceutical	7.1	6.8	0.3	4.6%
Cement & Construction Materials	188.3	178.8	9.5	5.3%
Machinery	67.0	58.7	8.2	14.0%
Energy & Environment	55.8	51.0	4.8	9.4%
Others	3.7	3.6	0.0	1.1%
Adjustment	(16.3)	(17.4)	1.1	—
Total	540.4	507.0	33.4	6.6%

Operating profit (Billions of yen)				
Segment	April – December 2018 ①	April – December 2017 ②	Difference ① – ②	Percentage change
Chemicals	15.9	22.1	(6.2)	(28.3)%
Pharmaceutical	0.8	1.4	(0.5)	(39.1)%
Cement & Construction Materials	8.5	9.8	(1.2)	(12.7)%
Machinery	2.6	2.6	(0.0)	(0.7)%
Energy & Environment	1.7	1.5	0.2	13.1%
Others	0.6	0.7	(0.0)	(6.9)%
Adjustment	(0.4)	(0.8)	0.3	—
Total	30.0	37.6	(7.5)	(20.1)%

Chemicals – Increases in net sales and decrease in operating profit

■ Nylon, Caprolactam and Industrial Chemicals Businesses

The Caprolactam Business recorded a sales increase, thanks to price normalization of the products to offset the continued excessive supply capacity in the China market.

The Nylon Business recorded a sales increase, thanks to a sales volume increase resulted from a rise in production capacity in Spain.

The Industrial Chemicals Business recorded a sales decrease, due to decreases in production and shipment of the products as the result of the once-every-two-year inspection in the ammonia product factory and the subsequent production problems at the factory.

Net sales increased, but operating profit decreased in the Nylon, Caprolactam and Industrial Chemicals Businesses as a whole, due to implementation of periodic inspection of the ammonia product factory.

■ The Synthetic Rubber Business recorded an increase in net sales and a decrease in operating profit, because sales volume of the products mainly used for tires increased while product prices fell whereas raw material price rose.

■ Battery Materials and Fine Chemicals Businesses

The Battery Materials Business recorded a sales increase, thanks to a sales volume increase resulted from a production capacity increase of separators supported by strong demand mainly for the products mounted on automobiles.

The Fine Chemicals Business recorded a sales increase, thanks to rises in overall sales prices.

Both net sales and operating profit increased in the Battery Materials and Fine Chemicals Businesses as a whole, thanks to sales expansion of separators.

■ Polyimide and Functional Products Businesses

The Polyimide Business recorded an increase in net sales, because increases in sales volume of the films mainly used on circuit boards remained stable and of varnish used for organic EL panels.

The Polyimide and Functional Products Businesses continued to be strong as a whole and recorded increases both in net sales and operating profit.

Pharmaceutical – Increases in net sales and decrease in operating profit

■ The Pharmaceutical Business recorded an increase in net sales and a decrease in operating profit, because sales volume of the drugs manufactured under contract increased while the royalty revenues declined.

Cement & Construction Materials – Increases in net sales and decrease in operating profit

■ The Cement and Ready-Mixed Concrete Business recorded a net sales increase, because the sales volume remained strong. On the other hand, the business was affected by a price rise of coal.

■ The Calcia and Magnesia Business recorded an increase in net sales, thanks to sales volume increases and sales price rises of the products represented by the magnesia products.

■ Net sales increased, but operating profit decreased in the Cement & Construction Materials Segment as a whole, due to strong impact of a price rise of coal.

Machinery – Increases in net sales and decrease in operating profit

■ The Molding and Industrial Machines Business recorded an increase in net sales, because sales of the products remained strong.

■ The Steel Products Business recorded a sales increase, thanks to rises in the sales prices for the reason that prices of raw materials remained high.

■ The Machinery Segment recorded an increase in net sales and a decrease in operating profit, because the Segment as a whole was significantly affected by raw material prices and construction expenses that remained at high levels.

Energy & Environment – Increases in both net sales and operating profit

■ The Coal Business recorded a net sales increase, thanks to rises of sales prices backed by favorable condition of coal market.

■ The Power Business recorded a sales increase, thanks to an increase in volume of selling electricity for the reason that the once-every-two-year inspection of the IPP power plant did not take place.

■ Both net sales and operating profit increased in the Energy & Environment Segment as a whole, mainly for the reason that the once-every-two-year inspection of the IPP power plant did not take place.

Others – Increases in net sales and decrease in operating profit

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and December 31, 2018

(Millions of yen)

	March 31, 2018	December 31, 2018
Assets		
Current assets		
Cash and deposits	49,059	32,421
Notes and accounts receivable - trade	162,739	167,389
Merchandise and finished goods	40,390	47,358
Work in process	20,084	26,261
Raw materials and supplies	30,455	31,345
Other	14,726	19,593
Allowance for doubtful accounts	(577)	(586)
Total current assets	316,876	323,781
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	85,063	86,458
Machinery, equipment and vehicles, net	143,779	135,706
Land	81,260	80,594
Other, net	24,160	23,388
Total property, plant and equipment	334,262	326,146
Intangible assets		
Other	5,006	6,217
Total intangible assets	5,006	6,217
Investments and other assets		
Investment securities	54,804	55,104
Other	31,947	32,407
Allowance for doubtful accounts	(606)	(648)
Total investments and other assets	86,145	86,863
Total non-current assets	425,413	419,226
Deferred assets	156	173
Total assets	742,445	743,180

(Millions of yen)

	March 31, 2018	December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	104,532	106,651
Short-term loans payable	69,802	73,445
Commercial papers	—	11,000
Current portion of bonds	10,010	10,000
Income taxes payable	6,027	3,232
Provision for bonuses	7,245	3,635
Other provision	1,062	1,117
Other	54,420	48,787
Total current liabilities	253,098	257,867
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	64,121	54,568
Provision	4,538	2,514
Net defined benefit liability	6,897	6,999
Negative goodwill	647	549
Asset retirement obligations	1,695	1,923
Other	24,588	23,915
Total non-current liabilities	152,486	140,468
Total liabilities	405,584	398,335
Net assets		
Shareholders' equity		
Capital stock	58,435	58,435
Capital surplus	38,291	38,368
Retained earnings	211,065	226,017
Treasury shares	(2,958)	(7,860)
Total shareholders' equity	304,833	314,960
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,691	3,845
Deferred gains or losses on hedges	(6)	(10)
Foreign currency translation adjustment	6,415	5,675
Remeasurements of defined benefit plans	(1,581)	(1,308)
Total accumulated other comprehensive income	10,519	8,202
Share acquisition rights	672	647
Non-controlling interests	20,837	21,036
Total net assets	336,861	344,845
Total liabilities and net assets	742,445	743,180

(2) Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

• Consolidated Statements of Income

For the first three quarters ended December 31, 2017 and 2018

(Millions of yen)

	April 1, 2017 - December 31, 2017	April 1, 2018 - December 31, 2018
Net sales	507,056	540,468
Cost of sales	406,964	447,167
Gross profit	100,092	93,301
Selling, general and administrative expenses	62,479	63,258
Operating profit	37,613	30,043
Non-operating income		
Interest income	160	203
Dividend income	953	1,720
Rent income	846	793
Amortization of negative goodwill	97	96
Share of profit of entities accounted for using equity method	2,862	3,776
Foreign exchange gains	489	725
Other	1,152	1,432
Total non-operating income	6,559	8,745
Non-operating expenses		
Interest expenses	1,066	829
Rent expenses	401	451
Other	3,636	4,078
Total non-operating expenses	5,103	5,358
Ordinary profit	39,069	33,430
Extraordinary income		
Gain on sales of non-current assets	39	58
Gain on sales of investment securities	8	19
Subsidy income	30	—
Total extraordinary income	77	77
Extraordinary losses		
Loss on disposal of non-current assets	975	1,706
Impairment loss	71	154
Loss on valuation of investment securities	5	11
Total extraordinary losses	1,051	1,871
Profit before income taxes	38,095	31,636
Income taxes	10,414	7,438
Profit	27,681	24,198
Profit attributable to non-controlling interests	1,011	1,353
Profit attributable to owners of parent	26,670	22,845

• Consolidated Statements of Comprehensive Income
For the first three quarters ended December 31, 2017 and 2018

(Millions of yen)

	April 1, 2017 – December 31, 2017	April 1, 2018 – December 31, 2018
Profit	27,681	24,198
Other comprehensive income		
Valuation difference on available-for-sale securities	2,153	(1,836)
Deferred gains or losses on hedges	(6)	(4)
Foreign currency translation adjustment	6,803	(588)
Remeasurements of defined benefit plans, net of tax	390	300
Share of other comprehensive income of entities accounted for using equity method	(54)	(153)
Total other comprehensive income	9,286	(2,281)
Comprehensive income	36,967	21,917
Comprehensive income attributable to owners of parent	35,070	20,528
Comprehensive income attributable to non-controlling interests	1,897	1,389

(3) Consolidated Statements of Cash Flows

For the first three quarters ended December 31, 2017 and 2018

(Millions of yen)

	April 1, 2017 – December 31, 2017	April 1, 2018 – December 31, 2018
Cash flows from operating activities		
Profit before income taxes	38,095	31,636
Depreciation and amortization	26,156	26,938
Impairment loss	71	154
Amortization of negative goodwill	(97)	(96)
Increase (decrease) in allowance for doubtful accounts	(73)	58
Interest and dividend income	(1,113)	(1,923)
Interest expenses	1,066	829
Foreign exchange losses (gains)	(53)	13
Share of loss (profit) of entities accounted for using equity method	(2,862)	(3,776)
Loss (gain) on sales of non-current assets	(38)	(23)
Decrease (increase) in notes and accounts receivable - trade	1,623	(5,378)
Decrease (increase) in inventories	(13,128)	(14,427)
Increase (decrease) in notes and accounts payable - trade	2,189	2,472
Other, net	(2,022)	(4,710)
Subtotal	49,814	31,767
Interest and dividend income received	2,846	2,885
Interest expenses paid	(1,063)	(891)
Income taxes paid	(9,021)	(12,637)
Net cash provided by (used in) operating activities	42,576	21,124
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(25,623)	(28,817)
Proceeds from sales of property, plant and equipment	247	910
Purchase of investment securities	(143)	(119)
Proceeds from sales of investment securities	13	5
Purchase of shares of subsidiaries and associates	(1,177)	(345)
Proceeds from sales of shares of subsidiaries and associates	111	43
Decrease (increase) in short-term loans receivable	191	32
Other, net	175	(247)
Net cash provided by (used in) investing activities	(26,206)	(28,538)

(Millions of yen)

	April 1, 2017 – December 31, 2017	April 1, 2018 – December 31, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,989)	9,689
Increase (decrease) in commercial papers	(10,000)	11,000
Proceeds from long-term loans payable	15,309	2,641
Repayments of long-term loans payable	(12,536)	(18,044)
Proceeds from issuance of bonds	19,908	9,955
Redemption of bonds	(15,010)	(10,010)
Purchase of treasury shares	(5,037)	(5,007)
Cash dividends paid	(6,344)	(7,872)
Dividends paid to non-controlling interests	(308)	(667)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(200)	(430)
Other, net	(650)	(553)
Net cash provided by (used in) financing activities	(17,857)	(9,298)
Effect of exchange rate change on cash and cash equivalents	911	1
Net increase (decrease) in cash and cash equivalents	(576)	(16,711)
Cash and cash equivalents at beginning of period	35,806	48,529
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	1,267	—
Cash and cash equivalents at end of period	36,497	31,818

(4) Notes to Quarterly Consolidated Financial Statements

(Note to events and conditions which indicate there could be substantial doubt about going concern assumption)

None.

(Note to significant changes in shareholders' equity)

None.

(Application of the specific accounting methods for preparing the quarterly consolidated financial statements)

Tax expenses are calculated by estimating an effective tax rate for net income based on reasonable assumptions of an effective tax rate after application of tax effect accounting for net income before tax for the consolidated fiscal year, including the current term, and by multiplying the quarterly net income before tax by the estimated tax rate of net income. However, for subsidiaries for which calculating tax expenses using the said estimation of the effective tax rate would significantly lack rationality, tax expenses are calculated by using the statutory effective tax rate.

Income taxes adjustment is included in income taxes.

(Additional Information)

(Adoption of the "Partial Amendment to 'Accounting Standard for Tax Effect Accounting'")

The Company Group has adopted the 'Partial Amendment to Accounting Standard for Tax Effect Accounting' (Accounting Standards Board of Japan Statement No. 28 issued on February 16, 2018) from the beginning of the first quarter consolidated period under review. Accordingly, deferred tax assets are presented in the section of investments and other assets, and deferred tax liabilities are presented in the section of non-current liabilities.

6. Segment Information

(1) Information concerning Net Sales and Operating Profit by Reportable Business Segment

For the First Three Quarters Ended December 31, 2017 (April 1, 2017 to December 31, 2017) (Millions of yen)

	Reported segment							Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Pharma- ceuticals	Cement & Construction Materials	Machinery	Energy & Environment	Others	Total		
Net sales									
External sales	224,078	6,799	173,759	58,083	41,630	2,707	507,056	—	507,056
Internal sales or transfers	1,262	40	5,093	709	9,423	972	17,499	(17,499)	—
Total	225,340	6,839	178,852	58,792	51,053	3,679	524,555	(17,499)	507,056
Segment profit (operating profit)	22,194	1,464	9,841	2,679	1,530	707	38,415	(802)	37,613

(Note 1) (802) million yen for adjustment for Segment profit includes (37) million yen for the elimination of transaction between the Segments and (765) million yen for company-wide cost that is not allocated to each reported Segment. Company-wide cost consists mainly of administration and general expense that is not attributed to each reported Segment.

(Note 2) Segment profit is adjusted with operating profit recorded in the consolidated statements of income.

For the First Three Quarters Ended December 31, 2018 (April 1, 2018 to December 31, 2018) (Millions of yen)

	Reported segment							Adjustment (note 1)	Amount recorded in consolidated statements of income (note 2)
	Chemicals	Pharma- ceuticals	Cement & Construction Materials	Machinery	Energy & Environment	Others	Total		
Net sales									
External sales	233,588	7,111	184,188	66,128	46,793	2,660	540,468	—	540,468
Internal sales or transfers	1,149	41	4,165	872	9,076	1,061	16,364	(16,364)	—
Total	234,737	7,152	188,353	67,000	55,869	3,721	556,832	(16,364)	540,468
Segment profit (operating profit)	15,914	891	8,593	2,661	1,730	658	30,447	(404)	30,043

(Note 1) (404) million yen for adjustment for Segment profit includes (61) million yen for the elimination of transaction between the Segments and (343) million yen for company-wide cost that is not allocated to each reported Segment. Company-wide cost consists mainly of administration and general expense that is not attributed to each reported Segment.

(Note 2) Segment profit is adjusted with operating profit recorded in the consolidated statements of income.

(Reference) Consolidated Key Indicators

(Billions of yen – except where noted)

	April – December 2017	April – December 2018	April 2018 – March 2019 (forecast)	April 2017 – March 2018
Capital investment	24.0	24.9	40.0	40.3
Depreciation and amortization	26.1	26.9	37.0	35.3
Research and development expenses	9.8	9.0	14.0	13.2
Adjusted operating profit *1	41.5	35.7	50.5	55.1
Interest-bearing debt	205.2	200.5	185.0	195.5
Shareholders' equity *2	313.4	323.1	334.0	315.3
Total assets	734.1	743.1	750.0	742.4
D/E ratio (times)	0.65	0.62	0.55	0.62
Shareholders' equity ratio (%)	42.7	43.5	44.5	42.5
Return on sales - ROS (%) *3	7.4	5.6	5.9	7.2
Return on assets - ROA (%) *4	—	—	6.8	7.6
Return on equity - ROE (%) *5	—	—	9.4	10.5
Number of employees	10,953	11,087	11,000	10,799

*1 Adjusted operating profit: Operating profit + Interest and dividend income + Share of profit of entities accounted for using equity method

*2 Shareholders' equity: Net assets – Share acquisition rights – Non-controlling interests

*3 ROS: Operating profit / Net sales

*4 ROA: Adjusted operating profit / Average total assets

*5 ROE: Profit attributable to owners of parent / Average shareholders' equity